



ESRB advice to EIOPA on the Guidelines on the range of scenarios to assess the credibility and feasibility of insurers' pre-emptive recovery plans

1. Introduction and summary

The Insurance Recovery and Resolution Directive (EU) 2025/1 (IRR¹) requires that EIOPA develop guidelines, in cooperation with the ESRB, on the range of scenarios that an insurer is to apply to assess its pre-emptive recovery plan. These guidelines, which are addressed to supervisors and insurers², are designed to ensure that the insurer's pre-emptive recovery plan is fit for purpose. This document is the ESRB's advice in response to EIOPA's consultation paper³ and it reflects the ESRB's macroprudential perspective. As stated by the ESRB in its responses to recent consultations, insurance activities can play a key stabilising role for the financial system and the real economy when they work well. However, during times of stress, insurers can also amplify stress through procyclical behaviour and they can also be a source of systemic risk. Solvency II and the IRRD provide strong frameworks designed to ensure that insurers are well prepared and resilient during period of financial stress. In this context, this advice considers the draft regulatory technical standards (RTS) and draft guidelines developed by EIOPA in relation to insurers' pre-emptive recovery plans (PRPs). Operational risk exposures are also relevant to an insurer's PRP and the range of scenarios they should consider. Reflecting this, the ESRB's advice is also mindful of the Digital Operational Resilience Act.

The PRP is one of the tools included in the IRRD that can help reduce the likelihood of the failure of an insurer. In line with the IRRD provisions, supervisors may require that the insurer develop and maintain a PRP that is reviewed and assessed by supervisors.⁴ Supervisors will identify certain insurers that should prepare a PRP in accordance with the criteria stipulated under Article 5(2) or (3) of the IRRD. This takes into account the impact that the failure of an insurer could have on other regulated entities, or the financial sector in general, as well as the minimum market coverage depending on the specific line of business. For instance, supervisors will make an assessment on the basis of the insurer's size of business, business model, risk profile, interconnectedness and

¹ See Article 5(11) of [Directive \(EU\) 2025/1 of the European Parliament and of the Council of 27 November 2024 establishing a framework for the recovery and resolution of insurance and reinsurance undertakings](#). This Directive also amends Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 and Regulations (EU) No 1094/2010, (EU) No 648/2012, (EU) No 806/2014 and (EU) 2017/1129.

² For the purpose of this response, insurers cover all types of insurers, reinsurers and insurance groups subject to the IRRD.

³ See [Consultation on the proposal for Guidelines to specify further the range of scenarios in pre-emptive recovery planning](#), EIOPA, 9 December 2025.

⁴ See Articles 4, 5 and 6 of the IRRD.



substitutability, its importance for the economy of the Member States in which it operates, and its cross-border activities, in particular where there are significant cross-border activities.⁵ The requirement to prepare a PRP follows the principle of proportionality but considers simplified obligations for certain insurers.⁶ For example, a small and non-complex insurer will not be expected to submit a PRP unless the supervisor deems otherwise.⁷

The purpose of a PRP is to help the insurer prepare for and manage financial distress before the supervisor sees the need to impose supervisory action on the insurer. The IRRD requires that a PRP include a minimum set of components⁸, for example, a framework of indicators and any remedial action that the insurer might take. It also requires that the insurer assess the effectiveness of its PRP against two key criteria - credibility and feasibility. Article 5(7) of the IRRD requires that an insurer verify whether its PRP is fit for purpose by assessing the credibility and feasibility of its PRP against a range of scenarios that could affect the insurer's asset and liability profile. Such scenarios should consider macroeconomic and financial events relevant to the insurer's specific conditions, including system-wide events, idiosyncratic stress events and a combination of such stress events. Consequently, the range of scenarios used by the insurer to assess its PRP are key to the insurer's preparedness and resilience. Supervisors will look at the range of scenarios that the insurer has used and can request that the insurer improve its PRP.

The ESRB welcomes EIOPA's proposed guidelines on the range of scenarios to be used by the insurer to assess whether its PRP is fit for purpose and makes one suggestion as to how these guidelines could be enhanced. The ESRB notes that the IRRD aims to ensure a minimum level of harmonisation and that EIOPA's guidelines were developed on that basis. The guidelines provide the minimum set of events for the categories of scenarios (idiosyncratic, system-wide, and a combination of both) that the insurer should consider. They also include slow- and fast-moving events and emphasise the importance for scenarios to cover a reasonable time period or time horizon. This is helpful to both insurers and supervisors. However, the ESRB believes that to make the scenarios used to assess a PRP more comprehensive, EIOPA should include reputational risk as an idiosyncratic event that the insurer should consider under Guideline 4. Furthermore, the ESRB believes that reputation would ideally be one of the dimensions (alongside solvency, liquidity, profitability and operational capability) that the insurer should use to assess the impact of each of its scenarios. The ESRB is, however, mindful that quantifying the impact of a given scenario on the reputation of the insurer could be difficult to implement at this stage.

The rest of this document is structured as follows. Section 2 sets out the ESRB's considerations regarding the key principles underlying the guidelines stipulated under Article 5(11) of the IRRD. Section 3 discusses the key

⁵ See Article 5(2) of the IRRD.

⁶ See Recital 21 and Article 4 of the IRRD.

⁷ See Article 5(3) of the IRRD.

⁸ For further details on the contents of PRPs, please refer to EIOPA's [Final Report on the draft Regulatory Technical Standards on the content of \(group\) pre-emptive recovery plans](#), 16 February 2026.



requirements under the IRRD for assessing PRPs. Section 4 reflects on the purpose, nature and range of scenarios, with suggestions on how the guidelines could be enhanced. Section 5 gives the ESRB's view on one of the policy options set out in Annex I of the consultation.

2. Principles that should inform the development of the guidelines

To ensure that insurers' pre-emptive recovery plans are fit for purpose, the ESRB believes that the guidelines should be based on the following principles. In particular, the guidelines should:

- provide enough granularity while also giving the insurer the flexibility to (i) develop its own range of scenarios; and (ii) enable supervisors to form an opinion on the credibility and feasibility of the PRPs.
- ensure alignment with the broader IRRD framework and consider links with the Solvency II framework to foster consistency and coherence across regulatory requirements. This includes links to the insurer's own risk solvency assessment and liquidity risk management plans, as well as consistency with other regulatory technical standards and guidelines underlying the PRPs.

3. Key requirements under the Insurance Recovery and Resolution Directive for assessing pre-emptive recovery plans

The IRRD emphasises two components of PRPs that the insurer must assess: indicators⁹ that may trigger remedial actions by the insurer and the type of remedial action that the insurer might take. An insurer must evaluate all components of its PRP. In addition, the IRRD (Article 5(7-8)) emphasises an assessment of (i) the framework of qualitative and quantitative indicators that identify points at which an insurer should consider or take remedial action to restore its financial position; and (ii) the remedial actions the insurer would take to restore its financial position were idiosyncratic or system-wide stress events to affect the insurer.

Any insurer subject to Article 5(7) of the IRRD should assess the credibility and feasibility of its PRP against a range of scenarios of severe macroeconomic and financial stress. Each insurer should design a range of scenarios that allows it to assess whether its PRP is fit for purpose. The IRRD requires the insurer to consider three categories of scenarios (idiosyncratic, system-wide, and a combination of both). The insurer should choose scenarios that would likely materially affect its asset and liability profile. The insurer should do this by taking into account its size of business, business model, and risk profile. The scenarios considered by the insurer should cover all relevant types and sources of risk and take into account its cross-border activities and interconnectedness within the financial system¹⁰. The insurer should also clearly and sufficiently describe the scenarios and impacts to enable

⁹ See Article 5(8) of the IRRD.

¹⁰ See Article 5(2) and (3) of the IRRD.

supervisors to make an informed assessment. Similarly, supervisors should take into account the range of scenarios used when examining the PRPs.

4. The ESRB's considerations regarding the purpose, nature and range of scenarios

It is the ESRB's view that the application of the range of scenarios should be a dynamic exercise linked to the insurer's overall risk management framework.¹¹ For instance, the insurer's process for developing and reporting on its own risk solvency assessment and liquidity risk management plans should inform and complement the range of scenarios it uses to assess its PRP. Similarly, learnings from operational resilience exercises (including business continuity or contingency planning and threat-led penetration testing¹²) could feed into the development of scenarios for the purpose of the requirements under Article 5 of the IRRD. Whilst each of these regulatory requirements has its own scope, the results should be comparable, for example, the insurer's scenario to assess a PRP could lead to remedial actions that require cash inflows to remedy the liquidity position and these actions should be achievable if compared against the insurer's liquidity risk management plan.

The range of scenarios should challenge the insurer and insurers should also consider scenarios that they would consider unlikely. Developing a range of scenarios to assess a PRP is an important tool for insurers and supervisors alike to enhance the preparedness and resilience of the insurer. This is in the interest of both the insurer and its policyholders. The scenarios should make the insurer consider the eventuality of a recovery situation. Therefore, the scenarios should include situations that could materially impair the insurer's ability to continue operating or have the potential to induce a material impact on the insurer's financial position unless timely remedial action is taken. Further, the severity of the scenarios should be made clear and reflect events that would typically display non-linear behaviour under stress. This approach provides insurers with ample opportunity to critically evaluate the scenarios that it will use to assess PRPs and to adopt a forward-looking approach. With this in mind, a reverse stress test rather than a standard stress test could serve as the baseline for the insurer when developing the scenarios to assess the credibility and feasibility of its PRP. Insurers should not rule out events or scenarios on the assumption that they consider them to be unlikely based on their previous data or knowledge. EIOPA's guidelines illustrate that the severity of the various scenarios is an important design principle for the range of scenarios to be used.

The ESRB believes that the inclusion of reputational risk as an idiosyncratic event would allow for more comprehensive PRPs. Reputational risk can arise from poor conduct, ethical breaches, regulatory violations or negative media coverage, for example. Over the years, financial institutions, including insurers, have suffered significant financial and operational consequences on account of reputational risk. The effects can be gradual or sudden. They can bring a company to near-collapse, requiring supervisory and/or government intervention to

¹¹ See the second paragraph of Article 5(1) of the IRRD. See also Recital 21 of the IRRD.

¹² See Chapter IV on Digital Operational Resilience Testing under the [Digital Operational Resilience Act for the financial sector](#).

stabilise the company's financial position or the reputational damage could be so harmful that it leads to the company being prohibited to write new business. A robust risk management and governance framework, as required under Solvency II, helps insurers to mitigate reputational risk. Whilst reputational risk is not quantified in the calculation of the capital requirements and is typically considered a second-round effect, the insurer can identify, quantify and monitor reputational risk as part of its risk management framework. In the ESRB's view, reputational risk can lead to a loss of confidence in the system, or critical nodes of the system, and it can therefore be a key amplifier, along with the financial and operational contagion channel. Therefore, the ESRB believes that reputational risk¹³ should be listed as one of the idiosyncratic events that the insurer should consider under Guideline 4.

Furthermore, the range of scenarios must also consider the speed of change (e.g. slow- or fast-moving) as a dimension in the design of the range of scenarios. The following descriptions illustrate the speed of change as a dimension to be considered in the range of scenarios. Slow-moving adverse circumstances are typically those that unfold gradually over time, such as a slow and persistent economic downturn, a gradual decline in certain economic sectors, a gradual build-up of debt, a period of prolonged inflation, a gradual rise in unemployment rates, or a slow shift in customer preferences. By contrast, fast-moving adverse circumstances are abrupt and impactful, such as pandemics, major cyberattacks, natural disasters (e.g. earthquakes, floods), market crashes, abrupt unforeseen liquidity demands, or rapid changes in customer's preference and/or behaviour. The ESRB appreciates the fact that EIOPA includes the speed of change in its guidelines.

The time horizon of the scenarios to assess the PRP is not defined under legislation and it should cover a reasonable period that reflects the size of business, risk profile and business model of the insurer. The insurer should identify, assess and regularly update the range of scenarios used to assess its PRP.¹⁴ This will enable the insurer to have a full understanding of the pressure points and events that could impair its business model and operations and which could lead it to fail if it does not take the necessary remedial action. The time horizons for the various scenarios should be defined by the insurer as part of a dynamic risk monitoring exercise. They could vary depending on the nature of the events under consideration. The ESRB supports the fact that EIOPA's guidelines specify that "the range of scenarios should cover a reasonable period which should reflect the size, risk profile and business model of the undertaking or group. In particular, the scenarios could range across short-, medium-, and long-term horizons or even extend over multiple periods where risks evolve over several stages". This should prevent insurers and supervisors from interpreting this to mean that the time horizons of the scenarios need to match the requirement to update a PRP at least every two years.¹⁵

When defining the range of scenarios, the insurer should complement its analysis by considering the risks and vulnerabilities identified by public authorities or bodies. Insurers would also benefit from taking into

¹³ The European Banking Authority's **Guidelines on the range of scenarios to be used in recovery plans** requires that the relevance of damage to the institution's or group's reputation be taken into account when designing scenarios based on idiosyncratic events (see Title II, paragraph 18 of the relevant guidelines).

¹⁴ See Recital 21 of the IRRD.

¹⁵ See Article 5(4) of the IRRD.

account the European Supervisory Authorities' risk analysis and risk dashboards¹⁶, as well as a broad set of well-known scenarios, such as EIOPA's regular insurance stress test¹⁷, the Fit-for-55 climate scenario analysis carried out by the European Supervisory Authorities and the European Central Bank¹⁸, the ESRB's risk dashboard¹⁹, and the IAIS Global Insurance Market Report²⁰, which assesses yearly global insurance market trends and vulnerabilities and identifies the potential build-up of systemic risk in the global insurance sector. EIOPA's guidelines could further draw insurers' attention to these resources.

5. The ESRB's view on one of the policy options set out in Annex I of the consultation

The ESRB believes that reputation would ideally be one of the dimensions that the insurer should use to assess the impact of each of its scenarios. EIOPA's Guideline 2, paragraph 1.16 outlines that each scenario should include a quantitative assessment of the impact of events, at a minimum, on the solvency position, liquidity position and on its profitability and, where relevant, on the operational capability of the insurer.²¹ In this regard, EIOPA asks the relevant stakeholders to provide their views on a policy option whereby reputation is included as an additional dimension against which insurers should measure the impact of each of their scenarios. EIOPA's preferred policy choice (A.2) is not to include reputation amongst these dimensions. The ESRB believes that, ideally, reputation²² would be included in one of the dimensions that the insurer should use to assess the impact of each of its scenarios, alongside solvency, liquidity, profitability and operational capability. The ESRB is, however, aware that, at this stage, quantifying the impact of a given scenario on the reputation of an insurer could be difficult to implement.

¹⁶ See [EIOPA's Insurance Risk Dashboard](#)

¹⁷ See EIOPA's [Insurance stress test 2024](#).

¹⁸ See [Fit-for-55 climate scenario analysis](#) by the European Supervisory Authorities and the European Central Bank

¹⁹ See the [ESRB's risk dashboard](#)

²⁰ See [Global Insurance Market Report \(GIMAR\)](#).

²¹ See Guideline 2, paragraph 1.16 of EIOPA's consultation paper.

²² The European Banking Authority's [Guidelines on the range of scenarios to be used in recovery plans](#) for banks include reputation as a factor against which an assessment of the impact of events should be considered, where relevant. (See Title II, paragraphs 10 and 18 of the relevant guidelines).